

VZCZCXRO9312

RR RUEHBI RUEHCI RUEHCN RUEHGH RUEHLH RUEHPW
DE RUEHLM #0103/01 0400413
ZNR UUUUU ZZH
R 090413Z FEB 10
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 1282
INFO RUEHAD/AMEMBASSY ABU DHABI 0001
RUEHBJ/AMEMBASSY BEIJING 1260
RUEHKA/AMEMBASSY DHAKA 2403
RUEHIL/AMEMBASSY ISLAMABAD 9425
RUEHKT/AMEMBASSY KATHMANDU 7680
RUEHNE/AMEMBASSY NEW DELHI 3841
RUEHPL/AMEMBASSY PORT LOUIS 0529
RUEHGP/AMEMBASSY SINGAPORE 5799
RUEHCN/AMCONSUL CHENGDU 0007
RUEHCG/AMCONSUL CHENNAI 9985
RUEHDE/AMCONSUL DUBAI 0191
RUEHGZ/AMCONSUL GUANGZHOU 0007
RUEHKP/AMCONSUL KARACHI 2701
RUEHCI/AMCONSUL KOLKATA 0521
RUEHLH/AMCONSUL LAHORE 0147
RUEHBI/AMCONSUL MUMBAI 7220
RUEHPW/AMCONSUL PESHAWAR 0407
RUEHGH/AMCONSUL SHANGHAI 0006
RUEHSH/AMCONSUL SHENYANG 0001
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 04 COLOMBO 000103

SIPDIS

DEPARTMENT FOR SCA/INSB

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EAIR](#) [ELTN](#) [EWWT](#) [PGOV](#) [CH](#) [CE](#)

SUBJECT: HAMBANTOTA PORT COMPLEX: WILL SRI LANKA REALIZE THE DREAM?

REF: A. A. COLOMBO 01125
[B. B. COLOMBO 01007](#)

11. (SBU) SUMMARY: Sri Lanka is betting on becoming a global trading hub, and a key part of its strategy is developing a giant port and industry facility in the southern rural area of Hambantota. Robust development in Hambantota, specifically the seaport and the international airport, is progressing at a rapid pace. Chinese support has been key to the development boom, and Chinese companies are deeply involved in infrastructure projects throughout greater Hambantota. The Port of Hambantota is the centerpiece of current development efforts, but construction of the new airport as well as numerous smaller projects in Hambantota proper are key to the region's potential future viability. There seems to be a disconnect between the level of development and the, as yet, lack of long-term commercial-investment interest in the area. Hambantota may very well succeed in building a city with an airport and seaport that do not live up to their potential and local infrastructure that benefits average citizens but does not spark a local economic boom. It is likely that corruption and political patronage are significant factors playing into the focus on Hambantota. Often when Chinese companies win contracts, their success is due in part on their widespread distribution of graft to senior Sri Lankan government officials. While it is currently unknown to what extent President Mahinda Rajapaksa is involved in Hambantota development, it seems logical that his hand is also out when commercial enterprises, especially the Chinese, jockey for contracts and projects. END SUMMARY.

THE JEWEL OF HAMBANTOTA

12. (SBU) Construction of the Port of Hambantota and development of the greater Hambantota district continues to move ahead at a breakneck pace. The port is scheduled to

open in November 2010, one year ahead of schedule. The port will occupy an area of more than 1,700 hectares, making it the largest regional port in South Asia in terms of square footage. For example, the port will be six times larger than the Port of Colombo. The Sri Lanka Ports Authority (SLPA) is hoping to garner significant business from the 70,000-80,000 ships that pass Sri Lanka's southern tip each year.

Currently, only 6,500 call on the Port of Colombo. The SLPA hopes to attract up to 10,000 additional vessels each year, with a significant portion of those berthing at Hambantota. The first phase of construction at the Port of Hambantota, costing USD 471 million, will be funded in large part by a USD 307 million loan from the Chinese Export-Import Bank (EXIM). China Harbor Engineering and Syno-Hydro Corporation are responsible for the port's construction. Both companies have embarked on an ambitious around the clock construction regimen. According to Colombo-based Chinese diplomats, China Harbor employees regularly work twelve hour shifts six days per week, and they generally work through local and Chinese holidays.

¶3. (U) Once completed, the port will have a 16-meter depth, Two-way entry channel, a 16-17-meter harbor basin (compared with Colombo's 15-meter basin), and will be capable of handling larger vessels than currently are accommodated at the Port of Colombo. With concurrent construction of an oil tank farm, the port will initially be capable of refueling, handling of bulk cargo such as cement and fertilizer, bulk trans-shipment, and the bunkering of 80,000 gallons of fuel, 6,000 metric tons of LP gas, and 10,000 metric tons of

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aviation fuel. Future construction plans at the port call for the addition of ship repair and overhaul facilities, construction of limited container facilities, and additional commercial berthing. China Harbor owns the contract for these future construction projects.

CAN THE PORT OF HAMBANTOTA ATTRACT INVESTMENT?

¶4. (SBU) The SLPA has invited investors from the cement, fertilizer, warehousing, gas, ship repair, port services, off-shore services, and food processing industries to consider placing facilities at the Port of Hambantota. Investors will have the choice of obtaining property at the port on a lease basis, via entering into a joint-venture with the SLPA, or purchasing land outright with payments of royalties to the SLPA based on production or volume. Chinese companies involved in the construction of the port may be given preferential terms should they desire to build commercial facilities after completion of port construction. Preferential terms may include low rent leases, extended tax holidays, and provision of small tracts of land for their own use/development.

¶5. (SBU) With completion of phase 1 of the Port of Hambantota, the SLPA and the Government of Sri Lanka hope to grab a share of the existing trade between India and China. Trade between the two countries is currently channeled through either Dubai or Singapore. Hambantota also would like to position itself as a primary bulk cargo handler for shipments to/from Pakistan and Bangladesh. While the SLPA has grand plans for the Port of Hambantota, it must weigh this with the future physical expansion and increased capacities of the Port of Colombo and possible competition from other developing Indian ports. While initially Hambantota will focus on bulk rather than container traffic, long-term viability will need to see the port running in competition with Colombo rather than operating as a complement to it.

¶6. (SBU) There has not yet been private investment in the Hambantota Region, which could be a hard sell. Hambantota is located in the rural south, far from Colombo, there are no significant industrial industries nearby, so at least

initially Hambantota will not benefit from local exports and imports. The Hambantota project has been government directed, although private investment could emerge later if the project becomes commercially viable.

THE REST OF THE HAMBANTOTA PROJECT

17. (SBU) The Government of Sri Lanka (GSL) is quickly working to integrate the Port of Hambantota with air and rail links. Construction of the Hambantota International Airport (HIA) is underway and the southern railroad is being extended to the airport with an additional rail extension being developed that will reach the port. The GSL envisions using an integrated-transport system rapidly to ship goods to locations throughout Sri Lanka. This effort is being supported by further Chinese EXIM bank loans, and China Harbor owns the contract to construct HIA and the rail links. Plans are also on paper to construct a six-lane southern expressway connecting the greater Hambantota area to western and central Sri Lanka. Highway overpasses will be constructed at major junctions to minimize traffic congestion on the expressway. No specific completion timeline has been set for this project. Given Sri Lanka's past track record,

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construction of an expressway could take years.

18. (U) The Sri Lankan Urban Development Authority (UDA) has nicknamed Hambantota the "Gateway to Asia". The GSL has designated Hambantota as a priority metropolitan area and an urban development zone. In addition to the construction of the international airport and seaport, and expansion of the road and rail network, the GSL has begun a major modernization effort in Hambantota proper. A Korean company is building a 1,650-person convention center and the Hambantota District Administrative center via a loan and grant respectively from the Korean Development Agency. Additionally, construction is underway on a new international cricket stadium, an auditorium, several libraries, a zoo east of the city, and a 300-acre botanical garden. The UDA has zoned space for six new Hambantota hotels. A Hambantota sewage and drainage plan has been established and approved by the GSL; however, a timeline for implementation of this plan has yet to materialize. The UDA has received an additional 360 requests for zoning approval for small scale projects. The Government of Iran is assisting the GSL with a major ongoing irrigation and canal project in greater Hambantota, aimed at significantly boosting local agricultural output. A special task force has been established to ensure coordinated development of Hambantota and the city was recently added to the national fiscal plan as one of the five cities in the country designated to receive the lions share of funding for infrastructure development (Batticaloa, Colombo, Jaffna, and Trincomalee are the others). The GSL hopes to develop Hambantota into a tourism hub and the UDA notes that there are more than 328 elephants in the greater Hambantota region, as well as archeological ruins, sand dunes, bird sanctuaries, and national parks.

WHY HAMBANTOTA?

19. (SBU) The GSL claims it chose Hambantota for development for business reasons: its proximity to international shipping lanes; the Port of Colombo has insufficient capacity to accommodate increased maritime traffic; the need for a second international airport; and the ready availability of land in greater Hambantota. The GSL also hopes to address regional economic imbalances by reducing poverty in the rural south. While Hambantota does have close proximity to international shipping lanes, most of the ships transiting the area are container ships. Hambantota, at least initially, will not have a container traffic capability. Additionally, the Port of Colombo has ample existing capacity to handle a spike in additional vessel traffic. With the planned construction of

three additional terminals at the Port of Colombo, there will be even more capacity added to that port and the SLPA has not yet identified additional business to fill it. There are some sights to see in/around Hambantota and land is available, but this is also the case in many other areas of Sri Lanka. Greater Hambantota, however, is President Rajapaksa's home region and political base, and this may play prominently in the drive to develop the region.

¶10. (SBU) Comment. With Chinese and other foreign assistance, the GSL, SLPA, and UDA are pushing ahead with plans rapidly and robustly to develop Hambantota. When the GSL master plan is completed, Hambantota will have a new seaport, international airport, rail links, roads, and local infrastructure. Despite this, there are no near-term prospects for significant commercial investment. The 'international' airport will only be used for charter flights

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given that there is little domestic airline presence and no international interest in using the airport for either passenger or cargo traffic. The SLPA hopes the Port of Hambantota will be used, but it has no specific indications that international bulk cargo handlers will relocate some/all of their shipments to Hambantota or tranship through the port. Development of greater Hambantota can, in theory, help the local populace with a better standard of living as well as increased economic prospects, this can only happen if the GSL can attract people and business to the city's hotels, convention center, cricket grounds, or other new facilities. Chinese interests are well positioned as they have the majority of projects in Hambantota. The Chinese will have preference at both the Port of Hambantota and HIA once they are completed.

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